

Chapter 13

Adjustments and Year-End Procedures

Objectives

After completing this chapter, you should be able to:

- Edit, void, and delete transactions (page 419)
- Make *General Journal Entries* (page 423)
- Memorize and schedule transactions to be automatically entered (page 426)
- Close the year and enter special transactions for sole proprietorships and partnerships (page 430)
- Set the closing date to lock the company file (page 435)

Restore this File:

This chapter uses Adjustments-12.QBW. To open this file, restore the Adjustments-12.QBM file to your hard disk. See page 8 for instructions on restoring files. If you are using QuickBooks Premier Accountant, we recommend that you toggle to QuickBooks Premier General Business as described on page x.

In this chapter, you will learn how to edit and void transactions in current and closed periods, and you'll learn how to use journal entries and zero-dollar checks to adjust balances and close the year. You will also learn how to memorize transactions and use the closing date in QuickBooks.

Editing, Voiding, and Deleting Transactions

Unlike many other accounting programs, QuickBooks allows you to change any transaction at any time as long as you have sufficient privileges. However, you should almost never change transactions dated in closed accounting periods, or transactions that have been reconciled with a bank statement.

Key Term:

For the purposes of this discussion, a *Closed Accounting Period* is a period for which you've already issued financial statements and/or filed tax returns.

When you change or delete a transaction, QuickBooks updates the *General Ledger* with your change, as of the date of the modified or deleted transaction. Therefore, if you modify or delete transactions in a closed accounting period, your QuickBooks financial statements will change for that period, causing discrepancies between your QuickBooks reports and your tax return.

In QuickBooks, the *Closing Date* field is used to “lock” your data file to prevent users from making changes on or before a specified date. See page 435 for information about setting the *Closing Date* in QuickBooks.

Tip:

Using the *Closing Date*, a period can be “closed” even if there is no tax return for the period. For example, you can close the books through January 31, 2015, even though your last tax return was dated December 31, 2014. If management makes decisions based on *printed* financial information dated January 31, 2015, any changes to QuickBooks information dated before January 31, 2015 will cause the reports in QuickBooks to disagree with the printed reports. Also, many companies submit financial information to third parties (e.g., banks) during their tax year on a monthly or quarterly basis.

Some companies close their books monthly, but other companies only close the books quarterly or annually. Make sure you know how often your company closes periods before you make changes to transactions that might affect closed periods.

Tip:

At the very least, you should lock the file at the end of each fiscal and/or calendar year. You may also choose to lock the file monthly, after you perform bank reconciliations and adjusting entries for the month.

Editing Transactions

From time to time, you may need to modify transactions to correct posting errors. To edit (or modify) a transaction in QuickBooks, change the data directly on the form. For example, if you forgot to add a charge for an Outdoor Photo Shoot to Invoice 2015-106 and *you have not already sent the invoice to your customer or client*, you will need to add a line for the photo session on the previously created invoice.

COMPUTER PRACTICE

To edit an existing transaction, follow these steps:

- Step 1. From the *Customers* menu, select **Create Invoices**. If QuickBooks displays a *Professional Services Forms* dialog box, click **OK**.
- Step 2. Click **Previous** to display Invoice 2015-106 dated 2/28/15 (see Figure 13-1).

Customer: Job **Cruz, Maria: Branch Opening** Class **Walnut C...** Template **Academy Photo Ser...** **Print Preview**

Date **02/28/2015** Invoice # **2015-106**

Invoice

Bill To
 Maria Cruz
 123 First Street
 Walnut Creek, CA 94596

Item	Quantity	Description	Rate	Amount	Class	Tax
Premium Photo Package	3	Premium Package of Photography from Session	85.00	255.00	Walnut Creek	Tax

P.O. No. Terms **2% 10 Net...**

Customer Message **Thank you for your business.** Tax **Contra Costa** (8.25%) 21.04
 Total 276.04

☒ To be printed ☐ To be e-mailed ☐ Enable online payment

Add Time/Costs... **Apply Credits...** Payments Applied 0.00
 Customer Tax Code **Tax** Balance Due 276.04

Memo

Save & Close **Save & New** **Revert**

Figure 13-1 Edit the transaction on the Create Invoices form

- Step 3. Click on the second line in the main body of the *Invoice* and enter **Outdoor Photo Session** in the *Item* column. Press **Tab**.
- Step 4. Enter **3** in the *Quantity* column and then press **Tab** (see Figure 13-2).

Customer: Job **Cruz, Maria: Branch Opening** Class **Walnut C...** Template **Academy Photo Ser...** **Print Preview**

Date **02/28/2015** Invoice # **2015-106**

Invoice

Bill To
 Maria Cruz
 123 First Street
 Walnut Creek, CA 94596

Item	Quantity	Description	Rate	Amount	Class	Tax
Premium Photo Package	3	Premium Package of Photography from Session	85.00	255.00	Walnut Creek	Tax
Outdoor Photo Session	3	Outdoor Photo Session	95.00	285.00	Walnut Creek	Non

P.O. No. Terms **2% 10 Net...**

Customer Message **Thank you for your business.** Tax **Contra Costa** (8.25%) 21.04
 Total 561.04

☒ To be printed ☐ To be e-mailed ☐ Enable online payment

Add Time/Costs... **Apply Credits...** Payments Applied 0.00
 Customer Tax Code **Tax** Balance Due 561.04

Memo

Save & Close **Save & New** **Revert**

Figure 13-2 Add the labor item to the Invoice.

- Step 5. Click **Save & Close** to save the *Invoice*.
- Step 6. On the *Recording Transaction* window, click **Yes**. This message confirms that you really want to change the transaction (see Figure 13-3).

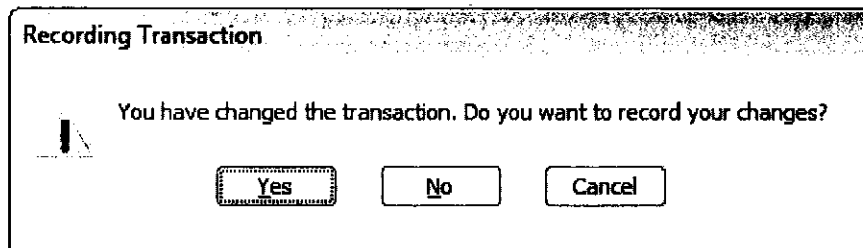


Figure 13-3 Recording Transaction window

Note:

Do not use this method of changing transactions if you have already sent the *Invoice* to the customer. In that case, you would need to create a new *Invoice* with the separate charge. Also, you should never change transactions dated in a closed accounting period.

Voiding and Deleting Transactions

Voiding and deleting transactions both have the same effect on the *General Ledger* – the effect is to zero out the debits and the credits specified by the transaction.

There is one significant difference between voiding and deleting. When you void a transaction, QuickBooks keeps a record of the date, number, and detail of the transaction. When you delete a transaction, QuickBooks removes it completely from your file.

The *Audit Trail* feature of QuickBooks tracks changes and deletions of transactions. The *Audit Trail Report* lists each accounting transaction and every addition, deletion, or modification that affects that transaction. For more information about the *Audit Trail*, see the QuickBooks Onscreen Help.

In addition to the *Audit Trail*, QuickBooks has a *Voided/Deleted Transactions Report* that lists all voided and deleted transactions. This report is very useful when you have a number of users in a file and transactions seem to “disappear,” since the report shows the time, date, and user name of the changes or deletions.

In general, voiding is better than deleting transactions. In either case, make sure you keep a record of voided and deleted transactions. The record should include the date of the voided or deleted transaction and the reason for it.

To **delete** a transaction:

1. Select the transaction you wish to delete; it may be displayed in a register or form.
2. Select the **Edit** menu and then select **Delete** (or press **Ctrl+D**).
3. On the *Delete Transaction* window, click **OK**.

To **void** a transaction:

1. Select the transaction in a register or display it in the form.
2. Select the **Edit** menu and then select **Void** (or right-click on the transaction and select **Void** from the shortcut menu).
3. Click the **Record** button at the bottom of the window.
4. If you attempt to close the window without recording the transaction, the *Recording Transaction* window displays. If this is the case, click **Yes** to record the transaction.

Note:

Proper accounting procedures do not allow you to simply delete transactions at will. However, in some cases it is perfectly fine to use the **Delete** command. For example, it is acceptable to delete a check that you have not printed. On the other hand, if you have already printed the check, you should **Void** the check instead of deleting it. That way, you will have a record of the voided check and keep the numbering sequence intact in the register.

Deleting All Transactions

Occasionally, you may wish to delete all transactions from a file, while leaving the *Customers*, *Vendors*, *Employees* and other *List* information as well as the *Preferences* in the file. QuickBooks *Condense Data Utility* allows you to make these changes. You have the option to either delete all transactions, or delete all transactions except for transactions within a specific date range. You can access the *Condense Data* command from the *Utilities* submenu under the *File* menu. QuickBooks prompts you to select a specific date to delete transactions before, or to delete all transactions. Do not do this now with your exercise file.

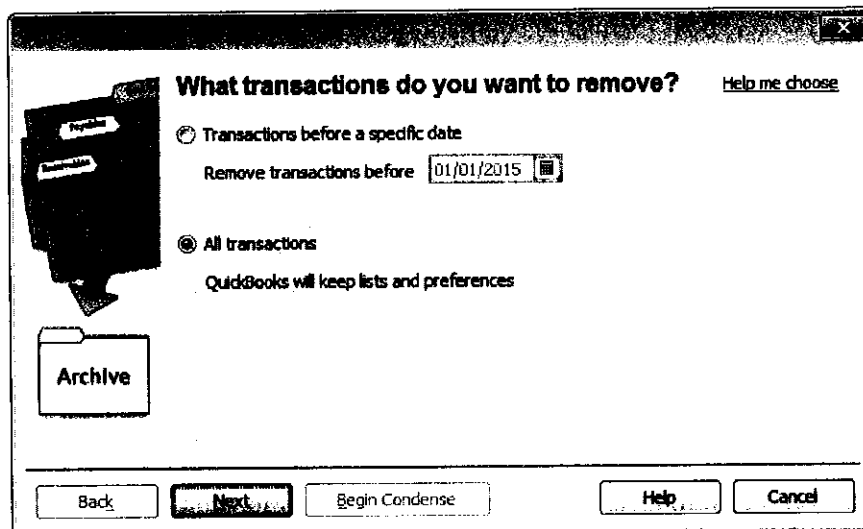


Figure 13-4 Condense Data Utility

General Journal Entries

General Journal Entries are transactions that adjust the balance of two or more accounts.

Note:

Good accounting practice suggests that you keep a separate record of each *General Journal Entry* you make in QuickBooks. This record will be very helpful if you are ever audited or if you have to research the reasons for the adjustment.

Here are a few examples of adjusting entries in QuickBooks:

- Recategorize a transaction from one Class to another.
- Recategorize a transaction from one account to another.
- Allocate prepaid expenses to each month throughout the year.
- Record non-cash expenses, such as depreciation.
- Close the Owner's Draw account into the Owner's Equity account.

In most cases, you will use a *General Journal Entry* to record adjustments.

Creating a General Journal Entry

Note:

Depending on your QuickBooks user settings, you may need permission from the QuickBooks administrator to create *General Journal Entries*.

COMPUTER PRACTICE

Step 1. Select the **Company** menu and then select **Make General Journal Entries**.

Those using QuickBooks Premier Accountant should select the *Accountant* menu and select *Make General Journal Entries*.

Step 2. If the *Assigning Numbers to Journal Entries* window opens, check the **Do not display this message in the future** box and click **OK**.

Step 3. Enter **01/31/15** in the **Date** field and then press **Tab** (see Figure 13-5).

If you are using QuickBooks Premier Accountant, your window may look different than Figure 13-5.

Step 4. Make sure **2015-1** is already in the *Entry No.* field. Press **Tab**.

The very first time you enter a *General Journal Entry*, enter whatever number you want in the *Entry No.* field. Then, when you create your next *General Journal Entry*, QuickBooks will increment the entry number.

Step 5. On the top line of the *Make General Journal Entries* window, enter **Journal Entries** in the *Account* column. Press **Tab** three times to leave the *Debit* and *Credit* columns blank for this line.

Expert Tip:

In these examples, we use a bank account called *Journal Entries* on the top line of each *Journal Entry*. If you create the *Journal Entries* bank account and then enter it on the top line of each *General Journal Entry*, QuickBooks tracks all the *General Journal Entries* in a separate register on the *Chart of Accounts*. This register allows you to quickly look up and view all of your *General Journal Entries*. Though you use this account in every *General Journal Entry*, you will never debit or credit the account and therefore it will never have a balance.

Step 6. Enter **Recategorize Expense** in the *Memo* column. Press **Tab** three times to leave the *Name* and *Class* columns blank for this line.

Step 7. Enter the information on the next two lines as shown in Figure 13-5.

Account	Debit	Credit	Memo	Name	Billable?	Class
10900 · Journal Entries			Recategorize Expense			
68600 · Utilities	25.62		Recategorize Expense			
67100 · Rent Expense		25.62	Recategorize Expense			
Totals	25.62	25.62				

Figure 13-5 General Journal Entry window

Note:

General Journal Entries must balance. The total of the *Debit* column must match the total of the *Credit* column.

Step 8. Click **Save & Close** to save the transaction.

Adjusting Expense Accounts Associated with Items (Zero-Dollar Checks)

If you use *Items* to track the details of your expenses, you may need to enter adjustments to the *Items* as well as the accounts to which the *Items* are assigned.

However, the *Journal Entry* window in QuickBooks has no provision for entering *Items* as part of the *Journal Entry*.

To solve the problem, use a transaction (such as a *Check*) that allows you to use *Items*. The *Check* will be a "Zero-Dollar Check" in that it will have an equal amount of debits and credits in the splits area of the transaction. You can use the *Journal Entries* bank account so you don't clutter the normal bank account with zero-dollar checks.

DO NOT PERFORM THESE STEPS NOW. THEY ARE FOR REFERENCE ONLY.

Follow these steps to use zero-dollar *Checks* as *Journal Entries*:

1. Create a *Check* using the *Journal Entries* bank account.
2. Enter the debits as *Items* with positive amounts and the credits as *Items* with negative amounts as shown in Figure 13-6 below. The total *Check* amount should net to zero.

Memorizing a Journal Entry

COMPUTER PRACTICE

To memorize a transaction, follow these steps:

Step 1. Create a *General Journal Entry* with the data from Figure 13-8

Account	Debit	Credit	Memo	Name	Billable?	Class
10900 - Journal Entries			Monthly depreciation entry for Truck			
62400 - Depreciation Expense	125.00		Monthly depreciation entry for Truck			
17000 - Accumulated Depreciation		125.00	Monthly depreciation entry for Truck			

Figure 13-8 Monthly Depreciation for Truck

Step 2. Before saving the *General Journal Entry*, select **Memorize General Journal** from the *Edit* menu (or press **Ctrl+M**).

Step 3. Enter **Vehicle Depreciation** in the *Name* field.

Use names that you will recognize so that you can easily find this transaction in the *Memorized Transaction list*.

Step 4. Set the fields as shown in Figure 13-9 to indicate when and how often you want the transaction entered and then click **OK**.

Name: Vehicle Depreciation

☐ Add to my Reminders List

☐ Do Not Remind Me

☒ Automate Transaction Entry

☐ Add to Group

How Often: Monthly

Next Date: 02/28/2015

Number Remaining: 119

Days In Advance To Enter: 0

Group Name: <None>

OK Cancel

Figure 13-9 Vehicle Depreciation memorized information

Step 5. Select **Save & Close** to record the *Journal Entry*. If QuickBooks displays a dialog box regarding *Tracking Fixed Assets on Journal Entries*, click **OK**.

Step 6. If necessary, close all your open windows by clicking the close box (X) in the upper right corner.

Did You Know?

You can memorize *most* transactions in QuickBooks. Just display the transaction, then select **Memorize [Transaction Name]** from the *Edit* menu, or right click on the transaction and select **Memorize [Transaction Name]**. You can also press **Ctrl+M**. The *Memorized Transaction List* contains all the transactions that you have memorized. To display this list, select **Memorized Transaction List** from the *List* menu.

Now, every time you launch QuickBooks, it checks your *Memorized Transaction* list for transactions that need to be entered automatically. If the system date is on or after the date in the *Next Date* field (minus the number in the *Days In Advance To Enter* field), QuickBooks will ask you if you want to enter the memorized transaction.

Deleting, Rescheduling, and Editing Memorized Transactions

Rescheduling or Renaming Memorized Transactions

COMPUTER PRACTICE

To edit the schedule or name of a memorized transaction, follow these steps:

Step 1. Select the **Memorized Transaction List** from the *Lists* menu, or press **Ctrl+T**.

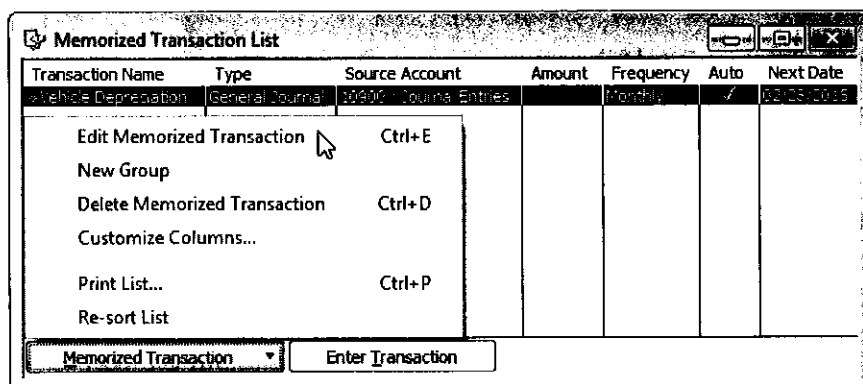


Figure 13-10 Memorized Transaction List

Step 2. Select the Vehicle Depreciation transaction in the *Memorized Transaction List*. Select **Edit Memorized Transaction** from the *Memorized Transaction* drop-down list or press **Ctrl+E** (see Figure 13-10).

Step 3. The *Schedule Memorized Transaction* window displays (see Figure 13-11). This window allows you to reschedule or rename the transaction, but it does not allow you to edit the actual transaction. Click **Cancel** and close all open windows.

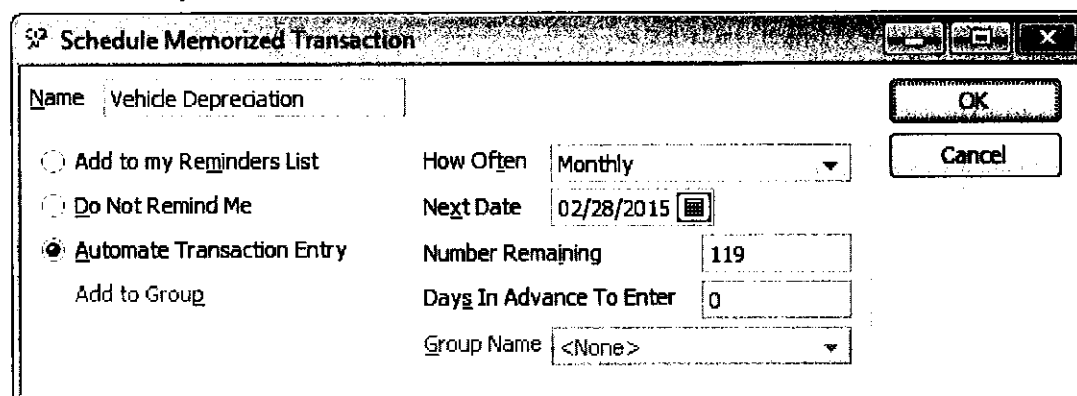


Figure 13-11 Schedule Memorized Transaction window

Editing Memorized Transactions

In addition to editing the schedule or other attributes of a memorized transaction, sometimes it is necessary to edit the actual contents of the transaction such as the *Items*, prices, or coding.

COMPUTER PRACTICE

To edit the contents of a memorized transaction, follow these steps:

- Step 1. Select the **Memorized Transaction List** from the *Lists* menu, or press **Ctrl+T**.
 Step 2. To edit the *Vehicle Depreciation* memorized transaction, double-click it in the **Memorized Transaction List**.

This displays a new transaction (see Figure 13-12) with the contents of the memorized transaction. You can change anything on the transaction and then rememorize it. In this case, we will add the **San Jose Class**.

The screenshot shows a window titled 'Edit Transaction'. At the top, there are buttons: Previous, Next, Save, Print..., History, Reverse, and Attach. Below these, there are fields for 'Date' (02/28/2015) and 'Entry No.' (2015-3). The main area is a table with columns: Account, Debit, Credit, Memo, Name, Billable?, and Class.

Account	Debit	Credit	Memo	Name	Billable?	Class
10900 • Journal Entries			Monthly depreciation entry for Truck			
62400 • Depreciation Expense	125.00		Monthly depreciation entry for Truck			San Jose
17000 • Accumulated Depreciation		125.00	Monthly depreciation entry for Truck			San Jose

Figure 13-12 Edit the transaction as necessary

- Step 3. To rememorize the transaction, select **Memorize General Journal** from the *Edit* menu (in the program's menu bar), or press **Ctrl+M**.
 Step 4. To save your edited transaction in the *Memorized Transaction* list click **Replace** (see Figure 13-13).

The screenshot shows a message box with a question mark icon. The text inside says: 'Vehicle Depreciation is already in the Memorized Transaction list. Would you like to replace it or add a new one?'. At the bottom, there are three buttons: Replace, Add, and Cancel.

Figure 13-13 Replace Memorized Transaction message

- Step 5. Click **Clear** to erase the contents of the *Journal Entry* and then click **Save & Close**. This will save the changes to the memorized transaction without entering the transaction in the *General Journal*.

Deleting Memorized Transactions**COMPUTER PRACTICE**

To delete a memorized transaction, follow these steps:

- Step 1. Select the **Memorized Transaction List** from the *Lists* menu, or press **Ctrl+T**.
 Step 2. The **Vehicle Depreciation** is already selected because it is the first and only memorized transaction on the list.
 Step 3. Select **Delete Memorized Transaction** from the *Memorized Transaction* drop-down list, or press **Ctrl+D** (see Figure 13-14).

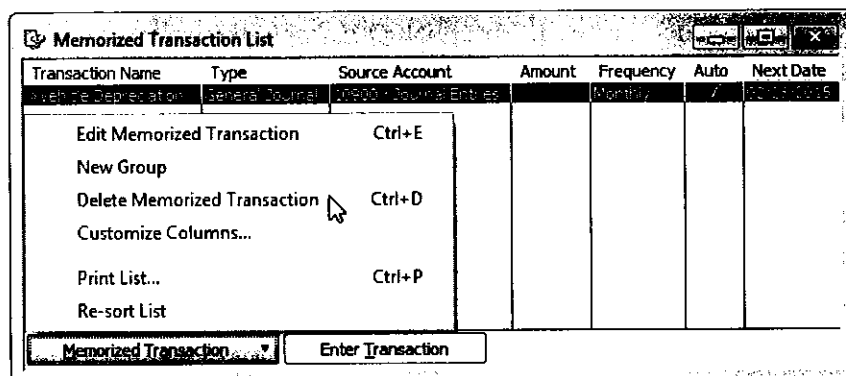


Figure 13-14 Deleting Memorized Transaction option

Step 4. For now, click **Cancel** on the *Delete Memorized Transaction* dialog box so the memorized transaction will not be deleted (see Figure 13-15).

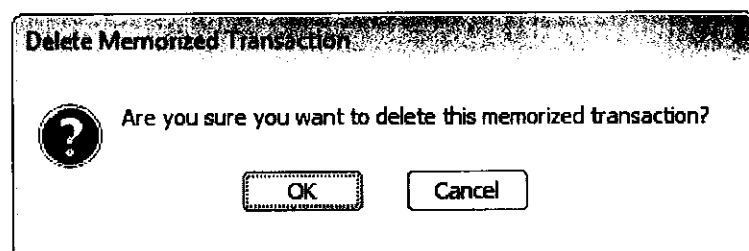


Figure 13-15 Delete Memorized Transaction

Step 5. Close all open windows.

Closing the Year

At the end of each year, accounting principles dictate that you must enter an adjusting entry to transfer net income or loss into the Retained Earnings (or Owner's Equity) account. This entry is known as the *closing entry*.

However, in QuickBooks you **do not need to make this entry**. QuickBooks does it for you, automatically. When you create a *Balance Sheet*, QuickBooks calculates the balance in Retained Earnings by adding together the total net income for all prior years. At the end of your company's fiscal year, QuickBooks automatically transfers the net income into Retained Earnings.

On the left side of the example in Table 1, notice that the *Balance Sheet* for 12/31/2014 shows net income for the year is \$100,000.00. The right side shows the same *Balance Sheet*, but for the next day (January 1, 2015). Since January is in a new year, last year's net income has been automatically transferred to the Retained Earnings account.

Equity on Dec 31, 2014		Equity on Jan 1, 2015	
Opening Bal Equity	0.00	Opening Bal Equity	0.00
Preferred Stock	50,000.00	Preferred Stock	50,000.00
Common Stock	75,000.00	Common Stock	75,000.00
Retained Earnings	100,000.00	Retained Earnings	200,000.00
Net Income	100,000.00	Net Income	0.00
Total Equity	325,000.00	Total Equity	325,000.00

Table 1 Example of QuickBooks closing entry

There are two advantages to QuickBooks automatically closing the year for you. First, you do not have to create the year-end entry, which can be time-consuming. Second, the details of your income and expenses are not erased each year, as some programs require.

Closing the Accounting Period

The following is a list of actions you should take at the end of each accounting period. Perform these steps as often as you close your company's books. Many companies close monthly or quarterly, while some close yearly. No matter when you close, these steps are to help you create proper reports that incorporate year-end transactions. These entries may be non-cash entries such as depreciation, prepaid expense allocations, and adjustments to equity to properly reflect the closing of the year.

At the end of the year (or period), consider doing some or all of the following:

1. Enter depreciation entries.
2. Reconcile cash, credit card, and loan accounts with the period-end statements.
3. If your business has inventory, perform a physical inventory on the last day of the year. Following the inventory count, enter an Inventory Adjustment transaction in QuickBooks if necessary. See the "Inventory" chapter for more information about adjusting inventory.
4. If you are on the accrual basis of accounting, prepare *General Journal Entries* to accrue expenses and revenues. Ask your accountant for help with these entries.
5. If your business is a partnership, enter a *General Journal Entry* to distribute net income for the year to each of the partner's capital accounts. If your business is a sole proprietorship, enter a *General Journal Entry* closing Owner's Draw into Owner's Equity. See the section below for more information.
6. Run reports for the year and verify their accuracy. Enter adjusting entries as necessary and rerun the reports.
7. Print or create a PDF and file the following reports as of your closing date: *General Ledger*, *Balance Sheet Standard*, *Statement of Cash Flows*, *Trial Balance*, *Inventory Valuation Summary*, and *Profit & Loss Standard* for the year.
8. Back up your data file on a special backup drive or network server, or CD. The year-end backup should be permanent and stored in a safe place.
9. Set the closing date to the last day of the period and set a closing date password to prevent transactions in the closed period from being changed. See page 435 for details on setting the closing date.
10. Consider using the *Clean up Data File* utility. This will "condense" (reduce) the size of your data file, but will probably not be necessary every year. Data file cleanup is an involved process that should be done by your accountant or QuickBooks consultant.

Recording Closing Entries for Sole Proprietorships and Partnerships

Note:

Do not enter the transactions in this section. However, do familiarize yourself with these issues so that you can properly close the year in a sole proprietorship or partnership company.

Sole proprietorships have the following accounts in the Equity section of the *Chart of Accounts* (see Figure 13-16).

Name	Type	Balance Total	Attach
♦ 30000 • Opening Bal Equity	Equity	0.00	
♦ 30800 • Owner Draw	Equity	0.00	
♦ 32000 • Owners Equity	Equity	0.00	
♦ 40000 • Services	Income		
♦ 45000 • Sales	Income		
♦ 46000 • Sales Discounts	Income		
♦ 50000 • Cost of Goods Sold	Cost of G...		
♦ 53000 • Purchase Discounts	Cost of G...		
♦ 53500 • Subcontracted Services	Cost of G...		

Sole Proprietorship Equity Accounts

Account Activities Reports

Figure 13-16 Sample Equity Section - Sole Proprietorships

Partnerships have the following accounts (or similar accounts) in the Equity section of the *Chart of Accounts* (see Figure 13-17). Although this list of accounts has a *Retained Earnings* account, it will be cleared out at the end of each year to keep it from accumulating a balance.

Name	Type	Balance Total	Attach
♦ 30000 • Opening Bal Equity	Equity	0.00	
♦ 30300 • Partner 1 Draws	Equity	0.00	
♦ 30400 • Partner 1 Equity	Equity	0.00	
♦ 30500 • Partner 2 Draws	Equity	0.00	
♦ 30600 • Partner 2 Equity	Equity	0.00	
♦ 32000 • Retained Earnings	Equity		
♦ 40000 • Services	Income		
♦ 45000 • Sales	Income		
♦ 46000 • Sales Discounts	Income		

Partner Equity Accounts

Account Activities Reports Attach Include inactive

Figure 13-17 Sample Equity section - Partnerships

Throughout the year, as owners put money into and take money out of the business, you will add transactions that increase and decrease the appropriate equity accounts. In a sole proprietorship, you will use the Owner's Equity and Owner's Draw accounts. In a partnership, you will use the Equity and Draws accounts for each partner.

To record owners' investments in the company, enter a deposit transaction in your *Checking* account (or the account to which you make deposits), and enter *Owners Equity* in the *From Account* field (see Figure 13-18).

Make Deposits

Previous Next Save Print Payments History Attach

Deposit To: 10100 • Ch... Date: 03/01/2015 Memo: Deposit

Click Payments to select customer payments that you have received. List any other amounts to deposit below.

Received From	From Account	Memo	Chk No.	Pmt Meth.	Class	Amount
	32000 • Owners Equity	Cash from Owner	5416	Check		5,000.00

Figure 13-18 Record owner's investments in the Make Deposits window

To record owner's withdrawals from the company, enter a check transaction in the Checking account (or the account from which the owner draws money), and enter *Owners Draw* in the *Account* field (see Figure 13-19).

Bank Account: 10100 - Checking Ending Balance: 11,562.00

No. 330 Date 02/28/2015

Pay to the Order of Vern Black \$ 1,000.00

One thousand and 00/100*****Dollars

Vern Black

Address

Memo Owner's Draw

Expenses \$1,000.00 Item \$0.00 Online Payment To be printed

Account	Amount	Memo	Customer:Job	Billable?	Class
30800 - Owner Draw	1,000.00	Owner's Draw			

Figure 13-19 Record owner's withdrawals as a check transaction

Closing Sole Proprietorship Draw Accounts

At the end of each year, you will create a *General Journal Entry* to zero out the Owner's Draw account and close it into Owner's Equity (see Figure 13-20).

Date 12/31/2015 Entry No. 2015-3

Account	Debit	Credit	Memo	Name	Billable?	Class
10900 - Journal Entries			To Close Owner's Draw			
32000 - Owners Equity	1,000.00		To Close Owner's Draw			
30800 - Owner Draw		1,000.00	To Close Owner's Draw			

Figure 13-20 General Journal Entry to close Owners Draw

To find the amounts for this *Journal Entry*, create a **Trial Balance Report** for the end of the year. Use the balance in the Owner's Draw account for a *General Journal Entry* to close the account. For example, if your *Trial Balance* shows a *debit* balance of \$1,000.00 in Owner's Draw, enter **\$1,000.00** in the *credit* column on the Owner's Draw line of this *General Journal Entry*. Then enter a debit to the Owner's Equity account to make the entry balance.

Closing Partnership Draws Accounts

To close the Partners' Draws accounts into each Partner's Equity account, use a *General Journal Entry* like the one shown in Figure 13-21. Use the same process explained above to get the numbers from the year-end *Trial Balance*.

Account	Debit	Credit	Memo	Name	Billable?	Class
10900 · Journal Entries			To Close Partner's Draw			
30400 · Partner 1 Equity	1,000.00		To Close Partner's Draw			
30300 · Partner 1 Draws		1,000.00	To Close Partner's Draw			

Figure 13-21 General Journal Entry to close partner's draws accounts

Distributing Net Income to Partners

With partnerships, you need to use a *General Journal Entry* to distribute the profits of the company into each of the partner's profit accounts. After making all adjusting entries, create a *Profit & Loss Report* for the year. Use the *Net Income* figure at the bottom of the *Profit & Loss Report* to create the *General Journal Entry*, in Figure 13-22. In this example, assume net income for the year is \$50,000 and that there are two equal partners in the business.

Account	Debit	Credit	Memo	Name	Billable?	Class
10900 · Journal Entries			Distribute Net Income			
32000 · Retained Earnings	50,000.00		Distribute Net Income			
30400 · Partner 1 Equity		25,000.00	50% Allocation to Partner 1			
30600 · Partner 2 Equity		25,000.00	50% Allocation to Partner 2			

Figure 13-22 Use a General Journal entry to distribute partners' profits

Note that the *General Journal Entry* in Figure 13-22 debits *Retained Earnings*. That is because QuickBooks automatically closes net income into *Retained Earnings* each year. This is the entry you'll make each year to zero out the balance in *Retained Earnings* and distribute the net income to the partners.

Also, note that the *General Journal Entry* is dated January 1. This is because there is no "after-closing" *Balance Sheet* in QuickBooks. The December 31 *Balance Sheet* should show "undistributed" net income for the year. If the *General Journal Entry* were made on December 31, you would never be able to see a proper (before closing) December 31 *Balance Sheet*. Therefore, to preserve the December 31 before-closing *Balance Sheet*, use January 1 for this closing entry. If you want to see an after-closing *Balance Sheet*, use January 1 for that *Balance Sheet*.

Tip:

To preserve the after-closing date *Balance Sheet*, it is best to change the date on all normal business transactions that occur on January 1 to January 2. Use January 1 exclusively for the previous year's "closing" entries.

Setting the Closing Date to “Lock” Transactions

QuickBooks allows the administrator to set a closing date that effectively locks the file so that no one can make changes to transactions dated on or before a specified date.

Note:

Several privileges are reserved for the administrator of the file. For example, the administrator is the only one who can view or change the company information (name, address, etc.) for the file. Also, the administrator is the only one who can make any changes to the *Company Preferences* tabs in the *Preferences* section. For more information about the file administrator, see the QuickBooks onscreen Help.

COMPUTER PRACTICE

To set or modify the closing date and closing date password, follow these steps:

- Step 1. Select **Preferences** from the *Edit* menu and then select the **Company Preferences** tab for the *Accounting* preference.
- Step 2. Click the **Set Date/Password** button at the bottom of the window (see Figure 13-23).

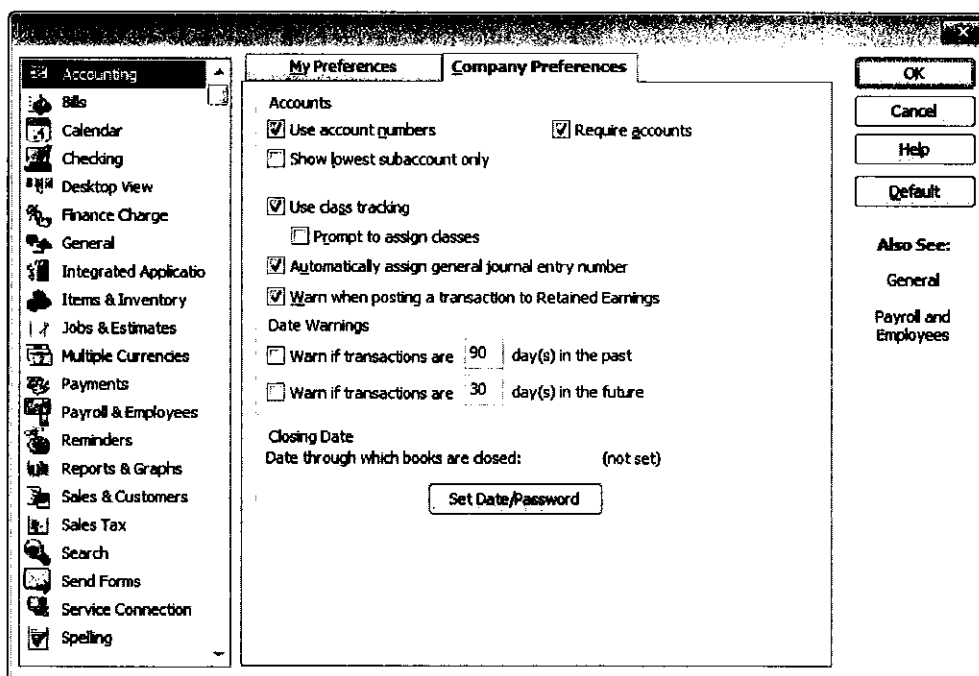


Figure 13-23 The Set/Date Password button in the Accounting Company Preferences

- Step 3. The *Set Closing Date and Password* window opens (see Figure 13-24). Enter **12/31/2015** in the *Closing Date* field.

The date you enter specifies that all transactions dated on or before that date are “locked.” Depending on each user’s access privileges, QuickBooks either prohibits additions, changes, or deletions to any transactions with a date on or before this date; or, warns users before they make additions, changes, or deletions. To further protect transactions in closed periods you can also require all users, including the administrator, to enter a password before they can add, change, or delete transactions dated on or before the closing date.

Tip:

The user's setup affects the ability to add, change, or delete locked ("closed") transactions. When setting up new users, always choose the setting that prevents them from making additions, changes, or deletions to transactions recorded on or before the closing date. Unless the Closing Date Password is set, the administrator of the file can always bypass the closing date by simply ignoring a warning window. To better protect the closing date in your QuickBooks file, require all users, including the administrator, to enter a Closing Date Password.

- Step 4. Enter Abcd1234 in the *Closing Date Password* and *Confirm Password* fields and click **Cancel** (see Figure 13-24). For this exercise, you won't save the changes. In reality, you will want to use a strong password.

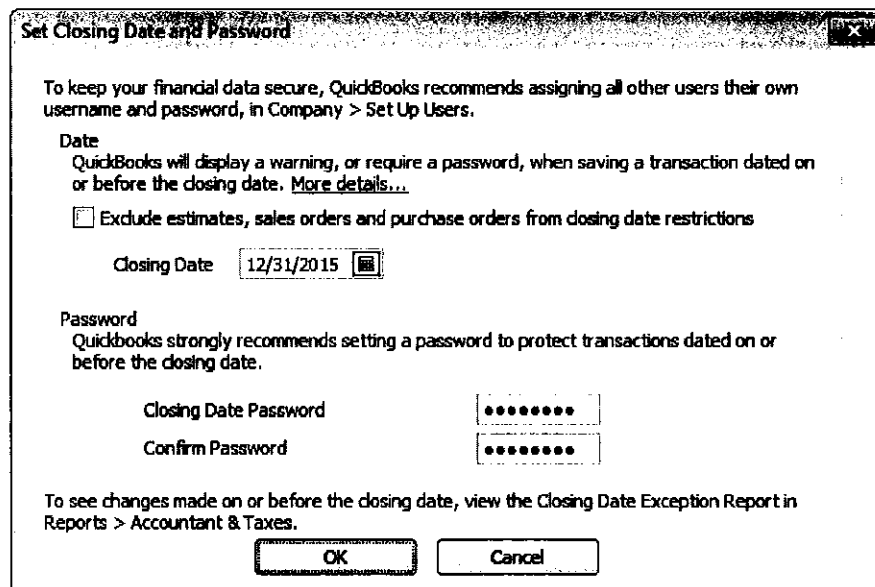


Figure 13-24 Set Closing Date and Password window

- Step 5. Click **OK** on the *Preferences* window.

QuickBooks will now require all users to enter this password when attempting to add, change, or delete transactions dated on or before the Closing Date.

Note:

Your accountant will probably recommend that you set the Closing Date at the end of each year (if not more frequently) to prevent users from accidentally changing transactions after your company has filed its tax return.

Review Questions

Select the best answer for each of the following:

1. Which of the following tasks does QuickBooks perform automatically at year-end?
 - a) Creates adjusting journal entries to the income and expense accounts that can be viewed in the *General Ledger* report
 - b) Identifies expenses that are too high in comparison with prior years
 - c) Adjusts the balance in the *Retained Earnings* account to reflect the net income or loss for the year
 - d) Automatically backs up the data file

2. Entering a date in the *Closing Date* field accomplishes which of the following:
 - a) Determines which date QuickBooks will use to automatically close the year
 - b) Determines which date QuickBooks closes your file
 - c) Locks the data file so that no unauthorized users can add, change, or delete transactions dated on or before the *Closing Date*
 - d) Prepares a closing entry on that date
3. Voiding and Deleting transactions both do the following:
 - a) Keep a record of the date, number, and detail of the transaction
 - b) Completely remove all details of the transaction
 - c) Zero out the debits and credits specified by the transaction
 - d) Both b and c
4. To make an adjustment to *Items* as well as their associated accounts, create a:
 - a) *General Journal Entry*
 - b) Fixed Asset
 - c) Zero-Dollar Check
 - d) Memorized Transaction
5. At the end of the year, you should perform the following:
 - a) Enter depreciation entries
 - b) Perform a physical inventory
 - c) If your business is a partnership, enter a *General Journal Entry* to distribute net income for the year to each of the partner's capital accounts. If your business is a sole proprietorship, enter a *General Journal Entry* closing Owner's Draw and Owner's Investments into Owner's Equity
 - d) All of the above

Adjustments Problem 1

APPLYING YOUR KNOWLEDGE

Restore the Adjustments-11Problem1.QBM file.

1. Create *General Journal Entry #2015-1* on *01/31/2015* to recategorize \$167.00 from **Office Supplies Expense** to **Postage and Delivery Expense** (*Hint: Debit Postage and Delivery, credit Office Supplies*). Use the **Journal Entries** account on the top line of the *General Journal Entry* as discussed in the chapter. Enter a descriptive memo *Recategorize Postage* on the top line of the entry. *Class: San Jose*.
2. Create a *General Journal Entry* on *01/31/2015*, *#2015-2*, recording \$85.00 in Depreciation for **Fixed Assets** (*Hint: Debit Depreciation Expense, credit Accumulated Depreciation*). Use the **Journal Entries** account on the top line of the *General Journal Entry* and enter a descriptive memo *Depreciation for Fixed Assets* on the top line of the entry. *Class: San Jose*.
3. Memorize the depreciation *Journal Entry* from the previous step using the **Edit/Memorize General Journal** option and schedule it to be automatically entered every month from February through December (11 remaining entries). Name the transaction "Monthly Depreciation." If you see the *Start up* message regarding automatically entering the memorized transactions, select **Later** and *do not* enter the transactions.

4. Create and print a **Balance Sheet** (Standard) as of **01/31/2015**.
5. Create and print a **Journal Report** for **01/01/2015** through **01/31/2015** (The *Journal Report* is in the *Accountant & Taxes* section of the *Reports* menu.) Filter the report to only show *Journal* transactions.